

## BILATERAL TRADE BETWEEN INDIA AND BHUTAN SINCE 1985

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### ABSTRACT

*India and Bhutan are the neighboring and developing countries of the SAARC region. Bhutan is a landlocked country located between the Tibetan autonomous region of China in the north and India in the south, east and west. The geo-strategic location of Bhutan is a safeguard for India against any aggression or encroachment by China. Good economic relations with Bhutan through trade, aid and joint ventures will be important for India as economic relations can strongly influence diplomatic relations. Amidst such scenario, the role of external sector, mainly of trade assumes significance in the development of India and Bhutan economies since 1985, when SAARC was established. Foreign trade registered a phenomenal increase between India and Bhutan during this period. An attempt has been made in this paper to examine trade relations between them in terms of volume, share and composition of trade.*

**KEYWORDS:** SAARC, SAFTA

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### INTRODUCTION

The economic relations between the developed and developing countries in the past have been essentially colonial in nature and hence favouring the latter. The pattern of comparative advantage between the developed and the developing countries in which former specialize in industrial production and the latter specialize in the agriculture production, has led to the phenomena of unequal exchange and adverse terms of trade for the developing countries. The regional economic groupings within the developed countries and the international financial institutions have further strengthened this trend. Understanding the fact of exploitation of developing countries by advanced countries, the former tried to promote mutual economic relations in order to achieve collective self reliance and to solve their economic problems. This was the basis of south-south cooperation to exploit the benefits of similar political and economic environment. Perhaps, this would be beneficial to developing countries in order to reduce its dependence on advanced economies and to improve their prospects of co-operation with the advanced countries in the future. By way of economic cooperation at the regional level, the developing countries of every region can become more and more inter-dependent on each other, thereby reducing their dependence on the developed countries (Madaan, 1996).

India and Bhutan are the neighboring and developing countries of the South Asian Association for Regional Cooperation (SAARC) region. Bhutan is a landlocked country located between the Tibetan autonomous region of China in the north and India in the south, east and west. About 63 per cent of its population is rural. During 2013, its per capita income was US\$ 2330 as compared to US\$ 1570 of India (World Bank, 2014). The role of external sector, mainly of trade, aid and joint ventures assumes significance in the development of India and Bhutan economies since 1985, when SAARC was established. Foreign trade registered a phenomenal increase between India and Bhutan during this period.

India and Bhutan signed Friendship Treaty on August 8, 1949, which has been revised on February 8, 2007. This Treaty provided duty free market access to both the countries (Ministry of External Affairs, 2014). Diplomatic relations between the two countries were established in 1968 with the appointment of a resident representative of India in Thimpu. Before this, Political Officer in Sikkim looked after these relations. Bhutan expanded its external relations with its entry into the United Nations in 1971 (Rose, 1973). The revised Indo-Bhutan Friendship Treaty 2007 recognizes Bhutan's status as an independent and sovereign nation. Further, South Asian Free Trade Area (SAFTA), operationalized since July 2006, has created new trade opportunities between the two countries. India is the major trade partner of Bhutan and the latter's more than three fourth trade is dependent on former. The mutual trade between them has got big boost in the recent period. The export of electricity to India by Bhutan has made latter's balance of trade favourable with former since the commissioning of Tala hydel power project in 2007.

### KEY ECONOMIC INDICATORS OF INDIA AND BHUTAN

It is relevant to know key economic of India and Bhutan. Table 1 shows the same during 2013. Bhutan was home to 0.75 million (mn) people with Gross Domestic Product (GDP) of US\$ 1.88 billion (bn) during 2013. However, India's population was 1252 mn (nearly 17 per cent of the world's total) with a GDP of US\$ 1877 bn during same period. On the basis of their macroeconomic indicators both economies differ significantly. The size of Indian economy in terms of GDP is approximately one thousand times more than the size of Bhutan economy. In terms of per capita GNI both countries are somehow same as compared to their size of population and GDP, which differ significantly. Among

**Table 1: Key Economic Indicators of India and Bhutan during 2013**

| Indicators                                    | India           | Bhutan          |
|---|-----------------|-----------------|
| GDP <sup>1</sup> (US\$ bn)                    | 1877            | 1.88            |
| Total Area <sup>2</sup> ('000 Km Sq.)         | 3287.3          | 38.4            |
| Population <sup>1</sup> (mn)                  | 1252            | 0.75            |
| Urban Population as % of Total <sup>1</sup>   | 32              | 37              |
| Life Expectancy at Birth <sup>1</sup> (2012)  | 66              | 68              |
| Literacy Rate (per cent)                      | 74 <sup>4</sup> | 63 <sup>5</sup> |
| Per Capita GNI <sup>1</sup> (US\$)            | 1570            | 2330            |
| HDI Rank <sup>6</sup>                         | 135             | 136             |
| Per Capita Exports <sup>3</sup> (US\$)        | 249.2           | 800             |
| Per Capita Imports <sup>3</sup> (US\$)        | 373.8           | 1200            |
| Per Capita Net Inflow FDI <sup>1</sup> (US\$) | 22.4            | 26.7            |

**Source:** 1. World Bank. 2014: World Development Indicators

2. www.worldatlas.com, Accessed on November 30, 2014

3. International Monetary Fund. 2014: Direction of Trade Statistics

4. www.censusindia.gov.in, Accessed on December 12, 2014

5. www.nsb.gov.bt, Accessed on December 12, 2014

6. UNDP. 2014: Human Development Report 2014

The social indicators there is much similarity between two nations. During 2012, Life expectancy and literacy rate was 66 per cent and 74 per cent respectively in India and 68 per cent and 63 per cent respectively in case of Bhutan. Further, both countries have low proportion of urban population in total population which was 32 per cent in India and 37 per cent in Bhutan, during 2013. However, being a small country with small size of population, Bhutan is showing

marginal improvements in his social indicators over India. Moreover, the much reliable Human Development Index (HDI) developed by United Nations Development Programme to compare the level of development of countries has shown the very close HDI ranks for India and Bhutan as shown in Table 1 India is ranked 135 while Bhutan is ranked 136 during 2013. This has shown that as far as the level of development is concerned both nations are sailing in the same boat. As far as foreign trade is concerned, India's per capita exports and imports with world were US\$ 249.2 and US\$ 373.8 respectively, as shown in Table 1 during 2013. Whereas, Bhutan's per capita exports and imports with world were US\$ 800 and US\$ 1200 respectively, during same period. Further, per capita net flow of FDI to India was US\$ 22.4 as compared to US\$ 26.7 to Bhutan during 2013. This indicates that size of Indian economy is much bigger than economy of Bhutan. Despite of such differences in various economic indicators, both nations have warm and cordial relations with each other since long time ago. There mutual cooperation is desired on economic, strategic and diplomatic front. It is well known fact that India's entire border with China is vulnerable. The geo-strategic location of Bhutan is a safeguard for India against any aggression or encroachment by China. Keeping in mind the need of Bhutan as strategic partner, India has been maintaining cordial and warm relationships with her since independence and signed Indo-Bhutan friendship treaty in 1949.

## **OBJECTIVES**

- Analysis of trends of volume of trade between India and Bhutan since 1985.
- To analyze the balance of trade, composition of trade and respective share in each other's total trade.
- To suggest policy measures that would strengthen Indo-Bhutan trade relations.

## **METHODOLOGY**

The study was based on secondary data. Both published and unpublished sources are used. The data were collected through a wide variety of sources: Journals on international trade: Statistical year book, National Statistics Bureau, Bhutan: Trade Statistics of Bhutan: Statistical Year Book for Asia and the Pacific, UN Publication; and through different online data sources like UNCOMTRADE, UNCTAD etc. Data related to composition of trade were based on Harmonized System coding (HS 92). The analysis of data was done by adopting various tools of descriptive statistics.

## **TRADE AT BILATERAL LEVEL**

Indo-Bhutan bilateral trade has been growing steadily and got big boost in recent years. Table 2 depicts the volume of bilateral trade between India and Bhutan during 1985-2012 at current prices. India's trade with Bhutan has increased from US\$ 86.6 mn in 1985 to US\$ 1303.3 mn in 2012. Trade volume between two nations was growing with compound annual growth rate (CAGR) of 10.6 per cent during 1985-2012. This was about 15 times more than the trade volume during 1985 and is considered to be unprecedented in context of India's trade growth with any country in the world. In terms of CAGR, India's trade with Bhutan was increased at highest CAGR of 11.3 per cent during SAPTA (1996-2005) and at lowest CAGR of 4.5 per cent during pre-SAPTA. SAPTA was signed in 1993 and strived to the adoption of various instruments of trade liberalization on a preferential basis.

India's exports to Bhutan have been growing faster than her imports from latter. India's exports to Bhutan have increased from US\$ 64.7 mn in 1985 to US\$ 782.6 mn in 2012. This was about 12 times more than the India's exports to Bhutan during 1985. India's exports to Bhutan were growing with CAGR 10.2 per cent during 1985-2012. During SAPTA period, India's export to Bhutan was growing at CAGR 14.7 per cent and at 19.3 per cent during post-SAFTA period

(2006-12). As regards to India's imports from Bhutan, these have increased from US\$ 21.8 mn during 1985 to US\$ 520.7 mn during 2012. India's imports from Bhutan were growing with CAGR 11.4 per cent during 1985-2012. During SAPTA period, these were grown at CAGR 7.6 per cent. But it was interesting to see that during post-SAFTA period CAGR of India's imports from Bhutan declined to 6.4 per cent from 7.6 per cent during post-SAPTA period. While for the same period CAGR of India's exports to Bhutan was grown to 19.3 per cent from 14.7 per cent during post-SAPTA period. Hence, during post-SAFTA period India's exports to Bhutan increased while imports from the latter declined. This observation was significant in context of Indo-Bhutan trade relations especially for Bhutan.

**Table 2: India's Trade with Bhutan during 1985-12 (US\$ Million)**

| Year                  | Exports to Bhutan | Imports from Bhutan | Balance of Trade | Trade Volume |
|-----------------------|-------------------|---------------------|------------------|--------------|
| 1985                  | 64.7              | 21.8                | 42.9             | 86.6         |
| 1986                  | 64.6              | 30.1                | 34.5             | 94.7         |
| 1987                  | 64.5              | 50.3                | 14.2             | 114.8        |
| 1988                  | 79.7              | 71.2                | 8.5              | 150.9        |
| 1989                  | 74.9              | 60.8                | 14.1             | 135.7        |
| 1990                  | 65.3              | 57.8                | 7.5              | 123.1        |
| 1991                  | 72.6              | 58.8                | 13.8             | 131.4        |
| 1992                  | 67.3              | 56.2                | 11.1             | 123.5        |
| 1993                  | 63.8              | 59.1                | 4.7              | 122.9        |
| 1994                  | 65.4              | 62.0                | 3.4              | 127.4        |
| 1995                  | 81.1              | 94.9                | -13.8            | 176.0        |
| 1996                  | 81.7              | 91.1                | -9.4             | 172.8        |
| 1997                  | 95.1              | 111.3               | -16.2            | 206.4        |
| 1998                  | 88.3              | 101.6               | -13.3            | 189.9        |
| 1999                  | 135.9             | 109.5               | 26.4             | 245.4        |
| 2000                  | 138.7             | 97.4                | 41.3             | 236.0        |
| 2001                  | 148.1             | 99.6                | 48.5             | 247.7        |
| 2002                  | 155.9             | 105.5               | 50.4             | 261.5        |
| 2003                  | 220.3             | 127.1               | 93.2             | 347.4        |
| 2004                  | 224.8             | 171.2               | 53.6             | 396.1        |
| 2005                  | 290.7             | 226.2               | 64.5             | 516.9        |
| 2006                  | 287.6             | 319.4               | -31.8            | 607.1        |
| 2007                  | 365.3             | 550.2               | -184.9           | 915.5        |
| 2008                  | 401.7             | 495.8               | -94.1            | 897.5        |
| 2009                  | 412.1             | 463.6               | -51.5            | 875.7        |
| 2010                  | 640.8             | 568.5               | 72.3             | 1209.3       |
| 2011                  | 760.2             | 553.5               | 206.7            | 1313.7       |
| 2012                  | 782.6             | 520.7               | 261.9            | 1303.3       |
|                       |                   | CAGR                |                  |              |
| 1985-1995(pre-SAPTA)  | 0.7               | 9.4                 |                  | 4.5          |
| 1996-2005(SAPTA)      | 14.7              | 7.6                 |                  | 11.3         |
| 2006-2012(post-SAFTA) | 19.3              | 6.4                 |                  | 11.1         |
| 1985-2012(post-SAARC) | 10.2              | 11.4                |                  | 10.6         |

**Source:** United Nations Commodity Trade Database; [www.comtrade.un.org](http://www.comtrade.un.org)

UN Statistical Year Book for Asia and the Pacific, various issues.

**Table 3: Per cent Share of Bhutan in India's Trade during 1985-2012**

| Year                   | Bhutan's Share in India's Export | Bhutan's Share in India's Import | Bhutan's Share in India's Total Trade |
|------------------------|----------------------------------|----------------------------------|---------------------------------------|
| 1985                   | 0.7                              | 0.1                              | 0.3                                   |
| 1986                   | 0.7                              | 0.2                              | 0.4                                   |
| 1987                   | 0.6                              | 0.3                              | 0.4                                   |
| 1988                   | 0.6                              | 0.4                              | 0.5                                   |
| 1989                   | 0.5                              | 0.3                              | 0.4                                   |
| 1990                   | 0.4                              | 0.2                              | 0.3                                   |
| 1991                   | 0.4                              | 0.3                              | 0.3                                   |
| 1992                   | 0.3                              | 0.2                              | 0.3                                   |
| 1993                   | 0.3                              | 0.3                              | 0.3                                   |
| 1994                   | 0.3                              | 0.2                              | 0.2                                   |
| 1995                   | 0.3                              | 0.3                              | 0.3                                   |
| 1996                   | 0.2                              | 0.2                              | 0.2                                   |
| 1997                   | 0.3                              | 0.3                              | 0.3                                   |
| 1998                   | 0.3                              | 0.2                              | 0.2                                   |
| 1999                   | 0.4                              | 0.2                              | 0.3                                   |
| 2000                   | 0.3                              | 0.2                              | 0.3                                   |
| 2001                   | 0.3                              | 0.2                              | 0.3                                   |
| 2002                   | 0.3                              | 0.2                              | 0.2                                   |
| 2003                   | 0.4                              | 0.2                              | 0.3                                   |
| 2004                   | 0.3                              | 0.2                              | 0.2                                   |
| 2005                   | 0.3                              | 0.2                              | 0.2                                   |
| 2006                   | 0.2                              | 0.2                              | 0.2                                   |
| 2007                   | 0.2                              | 0.2                              | 0.2                                   |
| 2008                   | 0.2                              | 0.2                              | 0.2                                   |
| 2009                   | 0.2                              | 0.2                              | 0.2                                   |
| 2010                   | 0.3                              | 0.1                              | 0.2                                   |
| 2011                   | 0.3                              | 0.1                              | 0.1                                   |
| 2012                   | 0.3                              | 0.1                              | 0.2                                   |
| Average                |                                  |                                  |                                       |
| 1985-1995 (pre-SAPTA)  | 0.5                              | 0.3                              | 0.3                                   |
| 1996-2005 (SAPTA)      | 0.3                              | 0.2                              | 0.3                                   |
| 2006-2012 (post-SAFTA) | 0.2                              | 0.2                              | 0.2                                   |
| 1985-2012 (post-SAARC) | 0.4                              | 0.2                              | 0.3                                   |

**Source:** United Nations Commodity Trade Database; [www.comtrade.un.org](http://www.comtrade.un.org)

UN Statistical Year Book for Asia and the Pacific, various issues

As regards to India's trade balance with Bhutan, Table 2 shows that India's trade balance with latter was favourable, except for the period 1995-98 and 2006-09. It has been noticed that India faced balance of trade deficit with Bhutan during initial years of SAPTA and SAFTA. The highest trade deficit that India faced with Bhutan was US\$ 184.9 mn during 2007, whereas the lowest was US\$ 9.3 mn during 1996. The trade deficit during 2007 was faced by India due to heavy import of electricity from Tala hydel project (1020 MW) in Bhutan, which started its production in the same year.

The foregoing discussion explains very low volume of mutual trade between India and Bhutan. The potentialities of bilateral trade expansion are largely influenced by the share of India and Bhutan in each other's total trade. Therefore, it is worthwhile to discuss the share of India and Bhutan's in each other's trade. These respective shares are shown in Tables 3 and 4 for the period 1985-2012.

It is evident from Table 3 that India was marginally dependent on Bhutan since beginning. Bhutan's average share in India's total trade was 0.3 per cent during 1985-2012. Bhutan's average share in India's total export and import was 0.4 and 0.2 per cent respectively, during 1985-2012. During SAPTA period, Bhutan's average share in India's export, import and total trade was 0.3 per cent, 0.2 per cent and 0.3 per cent respectively. However, it was marginally decreased during post-SAPTA period. During this period, Bhutan's average share in India's export, import and total trade was 0.2 per cent, 0.2 per cent and 0.2 per cent respectively. Hence, the reduced share of Bhutan in India's total export, import and total trade during post-SAPTA period indicates that SAPTA has created trade diversion between the two countries and failed to increase the share of Bhutan in India's trade. The highest share of Bhutan in India's total trade was recorded at 0.5 per cent during 1988 and lowest was recorded at 0.1 per cent in 2011 during post- SAPTA period. During 2003, Bhutan's share in India's total export was also recorded highest at 0.1 per cent and share of import was recorded highest at 0.1 per cent during 2006. This is concluded that Bhutan's capacity to meet India's import requirements has been very limited during the period under study, as also depicted by Table 3. This necessitates a systematic study of the trade between India and Bhutan. It is perhaps, here that investment and joint ventures could play an important role in increasing Bhutan's

**Table 4: Per cent Share of India in Bhutan's Trade during 1985-2012**

| Year                  | India's Share in Bhutan's Export | India's Share in Bhutan's Import | India's Share in Bhutan's Total Trade |
|-----------------------|----------------------------------|----------------------------------|---------------------------------------|
| 1985                  | 99.3                             | 76.9                             | 81.5                                  |
| 1986                  | 98.1                             | 69.7                             | 76.8                                  |
| 1987                  | 91.2                             | 74.3                             | 80.9                                  |
| 1988                  | 95.0                             | 62.6                             | 74.6                                  |
| 1989                  | 87.1                             | 83.0                             | 84.8                                  |
| 1990                  | 82.8                             | 80.3                             | 81.4                                  |
| 1991                  | 90.5                             | 75.2                             | 81.3                                  |
| 1992                  | 83.7                             | 52.6                             | 63.3                                  |
| 1993                  | 89.7                             | 70.3                             | 78.4                                  |
| 1994                  | 93.4                             | 71.8                             | 80.9                                  |
| 1995                  | 91.9                             | 72.2                             | 81.6                                  |
| 1996                  | 90.8                             | 64.0                             | 75.8                                  |
| 1997                  | 94.6                             | 69.4                             | 81.0                                  |
| 1998                  | 93.7                             | 66.0                             | 78.4                                  |
| 1999                  | 94.4                             | 74.7                             | 82.4                                  |
| 2000                  | 94.6                             | 79.1                             | 84.8                                  |
| 2001                  | 94.0                             | 77.5                             | 83.4                                  |
| 2002                  | 93.6                             | 79.3                             | 84.5                                  |
| 2003                  | 95.6                             | 88.5                             | 91.0                                  |
| 2004                  | 93.6                             | 54.7                             | 66.7                                  |
| 2005                  | 87.6                             | 75.1                             | 80.1                                  |
| 2006                  | 77.2                             | 68.7                             | 73.0                                  |
| 2007                  | 81.6                             | 73.3                             | 78.1                                  |
| 2008                  | 95.1                             | 73.9                             | 84.3                                  |
| 2009                  | 93.5                             | 77.8                             | 85.4                                  |
| 2010                  | 82.4                             | 75.1                             | 77.5                                  |
| 2011                  | 75.7                             | 72.3                             | 73.3                                  |
| 2012                  | 85.4                             | 71.8                             | 76.7                                  |
|                       |                                  | Average                          |                                       |
| 1985-1995 (pre-SAPTA) | 91.2                             | 71.7                             | 78.7                                  |
| 1996-2005 (SAPTA)     | 93.3                             | 72.8                             | 80.8                                  |

|                           |      |      |      |
|---------------------------|------|------|------|
| 2006-2012<br>(post-SAFTA) | 84.3 | 73.5 | 78.6 |
| 1985-2012<br>(post-SAARC) | 90.4 | 72.5 | 79.5 |

**Source:** United Nations Commodity Trade Database; [www.comtrade.un.org](http://www.comtrade.un.org)

UN Statistical Year Book for Asia and the Pacific, various issues.

Exports to India. Overall, Bhutan share in India's total trade was very low during 1985-2012.

As regards the share of India in Bhutan's trade, it is crystal clear that more than three fourth of Bhutan's trade is with India. Table 4 shows that Bhutan was much more dependent on India in 1985, the establishment year of SAARC. India's average share in Bhutan's total export, import and trade was 90.4 per cent, 72.5 per cent and 79.5 per cent respectively during 1985-2012. However, these respective shares during SAPTA period were 93.3 per cent, 72.8 per cent and 80.8 per cent respectively and changed to 84.3 per cent, 73.5 per cent, and 78.6 per cent respectively during post-SAFTA period. It has been observed India's share in Bhutan's import increased marginally during post-SAFTA, while India's share in Bhutan's exports and total trade was reduced moderately as compared to SAPTA period. One of the most significant implications of such scenario is that Bhutan's capacity to export to India is marginal as compared to India's capacity to meet Bhutan's import requirement. Such a situation needs to be reviewed so as to take appropriate measures to augment Bhutan's exports to India.

An examination of inter-temporal changes in trade composition in the development process may provide useful insights into the evolving trade pattern of India and Bhutan. With this purpose in view, traded commodities of these countries have classified adopting 6-digit Harmonized System classification. Composition of India's exports has been changing over the time. India's exports to Bhutan cover wide variety from consumer goods to capital goods and intermediate to final goods over the period under study as evident from Table 5.

India used to export diverse items to Bhutan over the period of time. Table 5 presents the composition of India's exports to Bhutan during 2005-11. It is interesting to note that the share of major 25 items during this period has been around 48.5 per cent of India's exports to Bhutan. Oil petroleum and distillates (not crude); ferrous products from direct reduction of iron ore; rice; dump trucks designed for off highway use; wood charcoal; coke & semi coke of coal; automobiles etc. were the major items of India's exports to Bhutan during this period. Their total share in India's exports to Bhutan was 15.9 per cent, 3.5 per cent, 3.2 per cent, 2.3 per cent, 2.2 per cent, 2.1 per cent, and 1.9

**Table 5: Composition of India's major exports to Bhutan during 2005-2011(US\$ million)**

| S.No | HS Code | Item  | 2005  | 2006  | 2007  | 2008  | 2009  | 2010  | 2011  | Total<br>(2005-11) | % Share |
|------|---------|---|-------|-------|-------|-------|-------|-------|-------|--------------------|---------|
| 1    | 271000  | Oils petroleum, bituminous, distillates, except crude           | 47.0  | 53.0  | 62.3  | 64.8  | 62.3  | 91.7  | 120.3 | 501.4              | 15.9    |
| 2    | 720310  | Ferrous products from direct reduction of iron ore              | 4.2   | 5.7   | 5.6   | 15.7  | 20.6  | 26.9  | 30.7  | 109.5              | 3.5     |
| 3    | 100630  | Rice, semi-milled or wholly milled                              | 9.3   | 10.4  | 13.2  | 16.1  | 14.9  | 18.5  | 18.4  | 100.7              | 3.2     |
| 4    | 870410  | Dump trucks designed for off-highway use                        | 1.3   | 2.2   | 6.4   | 3.7   | 7.4   | 20.1  | 32.8  | 73.9               | 2.3     |
| 5    | 440200  | Wood charcoal (including shell or nut charcoal)                 | 1.4   | 1.3   | 4.6   | 10.0  | 11.9  | 15.5  | 23.4  | 68.0               | 2.2     |
| 6    | 270400  | Coke, semi-coke of coal, lignite, peat & retort carb            | 2.3   | 3.7   | 5.8   | 11.1  | 9.0   | 16.2  | 16.7  | 64.7               | 2.1     |
| 7    | 870322  | Automobiles, spark ignition engine of 1000-1500 cc              | 1.1   | 3.7   | 6.5   | 12.5  | 10.7  | 10.1  | 13.7  | 58.3               | 1.9     |
| 8    | 721041  | Flat rolled iron/non-alloy steel, coat/zinc, comugated, w>600mm | 5.1   | 5.0   | 6.9   | 5.6   | 6.4   | 8.6   | 9.9   | 47.4               | 1.5     |
| 9    | 720410  | Waste or scrap, of cast iron                                    | 1.3   | 0.0   | 7.5   | 8.9   | 5.5   | 8.4   | 11.1  | 42.7               | 1.4     |
| 10   | 270119  | Coal except anthracite or bituminous, not agglomerate           | 1.6   | 2.0   | 3.1   | 4.3   | 7.8   | 12.8  | 10.2  | 41.7               | 1.3     |
| 11   | 220300  | Beer made from malt   | 6.7   | 6.4   | 4.8   | 4.8   | 4.8   | 6.9   | 6.4   | 40.8               | 1.3     |
| 12   | 260200  | Manganese ores, concentrates, iron ores >20% Manganese          | 0.0   | 1.1   | 3.8   | 12.9  | 4.1   | 13.1  | 5.4   | 40.3               | 1.3     |
| 13   | 150790  | Refined soya-bean oil, not chemically modified                  | 2.0   | 3.8   | 5.2   | 6.3   | 4.9   | 7.2   | 9.4   | 38.9               | 1.2     |
| 14   | 870321  | Automobiles, spark ignition engine of <1000 cc                  | 4.1   | 1.9   | 2.5   | 4.1   | 6.4   | 7.1   | 12.2  | 38.2               | 1.2     |
| 15   | 040210  | Milk powder <1.5% fat   | 3.4   | 3.6   | 3.9   | 5.4   | 5.2   | 6.5   | 5.7   | 33.7               | 1.1     |
| 16   | 271320  | Petroleum bitumen   | 2.5   | 2.4   | 3.0   | 8.4   | 5.8   | 2.8   | 4.1   | 28.9               | 0.9     |
| 17   | 870421  | Diesel powered trucks weighing <5 tonnes                        | 1.2   | 1.2   | 1.5   | 2.3   | 3.5   | 7.7   | 10.6  | 28.0               | 0.9     |
| 18   | 020110  | Bovine carcasses and half carcasses, fresh or chilled           | 2.0   | 3.3   | 3.2   | 3.2   | 4.1   | 5.1   | 5.2   | 26.1               | 0.8     |
| 19   | 870600  | Motor vehicle chassis fitted with engine                        | 0.0   | 0.7   | 2.3   | 1.1   | 3.2   | 7.2   | 11.0  | 25.5               | 0.8     |
| 20   | 170111  | Raw sugar, cane   | 3.1   | 3.2   | 2.6   | 2.6   | 3.5   | 3.7   | 4.5   | 23.2               | 0.7     |
| 21   | 730890  | Structures and parts of structures, iron or steel               | 3.4   | 2.6   | 3.8   | 2.5   | 1.4   | 2.5   | 5.5   | 21.6               | 0.7     |
| 22   | 690290  | Refractory bricks etc.  | 1.4   | 2.1   | 2.5   | 2.0   | 2.3   | 4.1   | 6.5   | 20.8               | 0.7     |
| 23   | 721430  | Bar/rod, iron or non-alloy steel, of free cutting steel         | 4.1   | 5.1   | 4.9   | 1.4   | 1.6   | 2.5   | 1.0   | 20.6               | 0.7     |
| 24   | 490199  | Printed reading books, except dictionaries etc.                 | 1.1   | 1.0   | 1.6   | 1.6   | 3.8   | 4.8   | 5.8   | 19.6               | 0.6     |
| 25   | 730690  | Tube/pipe hollow profile, iron/steel, inverted/open sea         | 2.1   | 1.8   | 2.8   | 1.9   | 2.4   | 3.1   | 4.1   | 18.3               | 0.6     |
|      |         | Sub Total   | 117.7 | 127.2 | 170.3 | 213.2 | 213.5 | 313.1 | 384.6 | 1532.8             | 48.5    |
|      |         | Total including rest of the items                               | 290.7 | 287.6 | 365.4 | 401.8 | 412.1 | 640.8 | 760.2 | 3158.6             | 100.0   |

Source: Derived from United Nations Comtrade Database

**Table 6: Composition of India's Major Imports from Bhutan During 2005-11 (US\$ Million)**

| S. No. | HS Code | Item   | 2005  | 2006  | 2007  | 2008  | 2009  | 2010  | 2011  | Total<br>(2005-11) | % Share |
|--------|---------|--|-------|-------|-------|-------|-------|-------|-------|--------------------|---------|
| 1      | 271600  | Electrical energy  | 78.1  | 109.8 | 242.9 | 254.6 | 208.5 | 227.7 | 210.5 | 1332.2             | 41.9    |
| 2      | 720221  | Ferro-silicon, >55% silicon                                | 14.6  | 12.3  | 33.8  | 0.0   | 86.44 | 119.6 | 121.6 | 388.3              | 12.2    |
| 3      | 091010  | Ginger   | 0.1   | 0.1   | 0.3   | 236.1 | 0.5   | 0.5   | 0.4   | 237.9              | 7.5     |
| 4      | 740819  | Wire of refined copper < 6mm wide                          | 7.0   | 17.9  | 79.3  | 0.0   | 20.1  | 37.7  | 42.9  | 204.9              | 6.5     |
| 5      | 252329  | Portland cement, other than white cement                   | 13.9  | 21.6  | 26.5  | 0.0   | 28.4  | 29.6  | 22.0  | 142.0              | 4.5     |
| 6      | 284910  | Calcium carbide  | 15.7  | 12.5  | 18.1  | 0.0   | 17.3  | 21.1  | 19.9  | 104.6              | 3.3     |
| 7      | 720610  | Iron or non-alloy steel in ingots, <99.94% iron            | 13.5  | 12.5  | 10.3  | 0.0   | 6.7   | 13.0  | 6.0   | 62.0               | 1.9     |
| 8      | 721430  | Bar/rod, iron/non-alloy steel, of free cutting steel       | 0.0   | 0.1   | 0.5   | 0.0   | 18.0  | 16.2  | 25.0  | 59.9               | 1.9     |
| 9      | 741300  | Stranded copper wire/cable/plaits, <u>uninsulated</u>      | 17.5  | 25.6  | 12.0  | 0.0   | 0.0   | 0.0   | 0.0   | 55.0               | 1.7     |
| 10     | 251810  | Dolomite not calcined                                      | 2.7   | 4.1   | 7.3   | 0.0   | 10.2  | 14.2  | 13.4  | 52.0               | 1.6     |
| 11     | 151190  | Palm oil or fractions simply refined                       | 4.4   | 30.4  | 11.7  | 0.0   | 0.0   | 0.0   | 0.0   | 46.5               | 1.5     |
| 12     | 252010  | Gypsum, anhydride  | 3.3   | 5.6   | 5.1   | 0.0   | 8.2   | 8.9   | 9.3   | 40.4               | 1.3     |
| 13     | 811100  | Manganese, articles thereof, waste or scrap                | 0.0   | 0.0   | 0.0   | 0.0   | 2.3   | 16.7  | 13.4  | 32.5               | 1.0     |
| 14     | 151620  | <u>Veg fats, oils/ fractions hydrogenated, esterified</u>  | 0.5   | 1.5   | 29.7  | 0.0   | 0.0   | 0.0   | 0.0   | 31.7               | 1.0     |
| 15     | 070190  | Potatoes, fresh or chilled except seed                     | 2.7   | 3.0   | 3.6   | 2.8   | 8.2   | 4.3   | 5.4   | 30.0               | 0.9     |
| 16     | 441010  | Particle board of wood                                     | 6.1   | 0.0   | 6.8   | 0.0   | 5.6   | 5.7   | 5.5   | 29.8               | 0.9     |
| 17     | 284920  | Silicon carbide  | 0.0   | 0.0   | 0.0   | 0.0   | 3.7   | 9.8   | 11.1  | 24.6               | 0.8     |
| 18     | 540320  | Textured yarn of artificial filaments, not retail          | 10.8  | 9.5   | 0.0   | 0.0   | 0.0   | 0.0   | 0.0   | 20.3               | 0.6     |
| 19     | 392099  | Sheet/film not cellular/reinf plastics                     | 3.3   | 1.7   | 3.1   | 0.0   | 3.2   | 4.3   | 4.8   | 20.3               | 0.6     |
| 20     | 220210  | Beverage waters, sweetened or flavoured                    | 5.4   | 4.1   | 3.1   | 0.0   | 2.5   | 2.0   | 3.1   | 20.1               | 0.6     |
| 21     | 720719  | Semi-finished product, iron/non-alloy steel <0.25%C        | 0.0   | 0.0   | 0.0   | 0.0   | 7.5   | 8.7   | 3.5   | 19.7               | 0.6     |
| 22     | 722720  | Bar/rod, of <u>silico-manganese</u> steel, irregular coils | 0.0   | 0.0   | 14.3  | 0.0   | 0.0   | 0.0   | 0.0   | 14.3               | 0.5     |
| 23     | 270112  | Bituminous coal, not agglomerated                          | 0.8   | 1.7   | 2.4   | 0.0   | 1.0   | 4.4   | 3.9   | 14.1               | 0.4     |
| 24     | 740710  | Bars, rods & profiles of refined copper                    | 0.0   | 13.8  | 0.0   | 0.0   | 0.0   | 0.0   | 0.0   | 13.8               | 0.4     |
| 25     | 200990  | Mixtures of juices not fermented or spiced                 | 2.2   | 2.3   | 2.8   | 0.0   | 2.7   | 2.3   | 0.9   | 13.2               | 0.4     |
|        |         | Sub Total  | 202.6 | 290.1 | 513.6 | 493.5 | 441.0 | 546.7 | 522.6 | 3010.1             | 94.7    |
|        |         | Total Including Rest of the Items                          | 226.2 | 319.4 | 550.2 | 495.8 | 463.6 | 568.5 | 553.5 | 3177.3             | 100.0   |

Source: Derived from United Nations Comtrade Database



Per cent respectively during 2005-11. All these items continued to figure in India's exports to Bhutan since 2005. While the share of oil petroleum (not crude) in India's total exports to Bhutan was 16.2 per cent in 2005, it diminished to 15.8 per cent in 2011. The share of ferrous products in India's total exports to Bhutan was 1.5 per cent in 2005 and increased to 4.0 per cent in 2011. The share of dump trucks, wood charcoal, coke & semi coke of coal and automobile with spark ignition engine (1000-1500 cc) in total India's export to Bhutan was 0.5 per cent, 0.5 per cent, 0.8 per cent and 0.4 per cent respectively, during 2005. These respective shares increased to 4.3 per cent, 3.1 per cent, 2.2 per cent and 1.8 per cent respectively during 2011. However, the share of rice, milk powder, raw sugar bar/rod iron or non-alloy steel of free cutting steel in total India's exports to Bhutan was 3.2 per cent, 1.2 per cent, 1.1 per cent and 1.4 per cent respectively during 2005 and came down to 2.4 per cent, 0.8 per cent, 0.6 per cent, and 0.1 per cent respectively during 2011. India's imports from Bhutan have shown modest diversification. Table 6 reveals the composition of 25 major items of India's imports from Bhutan during 2005-11. The share of these items has been 94.7 per cent of India's total import from Bhutan during this period. The two most important items of India's imports from Bhutan were electrical energy and ferro-silicon >55% silicon during this period. These accounted for 41.9 per cent and 12.2 per cent, respectively, in India's total imports from Bhutan during 2005-11. While the share of electrical energy was 34.5 per cent in 2005, it rose to 51.3 per cent in 2008 and finally came down to 38 per cent during 2011. However, the share of ferro silicon >55% silicon increased from 6.4 per cent in 2005 to 22 per cent in 2011. The other major items of India's import from Bhutan were ginger (7.5 per cent); wire of refined copper < 6mm wide (6.5 per cent); portland cement (4.5 per cent); calcium carbide (3.3 per cent); iron or non-alloy steel in ingots < 99.94% iron (2 per cent) etc. during 2005-11.

## CONCLUSIONS

Foreign trade has played a vital role in the development of India and Bhutan. Indo-Bhutan bilateral trade has been growing steadily since 1985. Volume of bilateral trade between India and Bhutan during 1985-2012 has increased significantly, from US\$ 86.6 mn to US\$ 1303.3 mn. With such a positive pace, India's trade with Bhutan shares about 0.2 per cent of India's global trade and 76.7 per cent of Bhutan's global trade during 2012. It appears that Indo-Bhutan friendship treaty 1949 has been bearing fruit as trade volume between both nations has grown up by CAGR of 10.6 per cent which is very encouraging in context of India's trade with any country in the world. India experienced a favourable trade balances with Bhutan except initial years of SAPTA and SAFTA. It indicates that India's exports were more than India's import from Bhutan except initial years of SAPTA and SAFTA. In recent years India faced balance of trade deficit with Bhutan due to high import of electricity from Bhutan, but in last couple of years this negative balance turned into surplus due to increased exports than imports from Bhutan. Oil petroleum and distillates (not crude); ferrous products from direct reduction of iron ore; rice; dump trucks designed for off highway use; wood charcoal; coke & semi coke of coal and automobiles, were the major items of India's exports to Bhutan during this period while electrical energy and ferro- silicon > 55% silicon were identified as major items of India's imports from Bhutan. The combined share of both the items was 54.2 per cent during this period. However, it has been clear from the analysis that Bhutan's capacity to meet India's import requirements has been very limited, while India can easily meet Bhutan's import requirements. What is more worrisome is the failure of SAFTA to increase the share of India and Bhutan in each other's trade. The decline in the share of India and Bhutan in each other's trade is a matter of great concern and need immediate policy measures to reverse this trend.

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